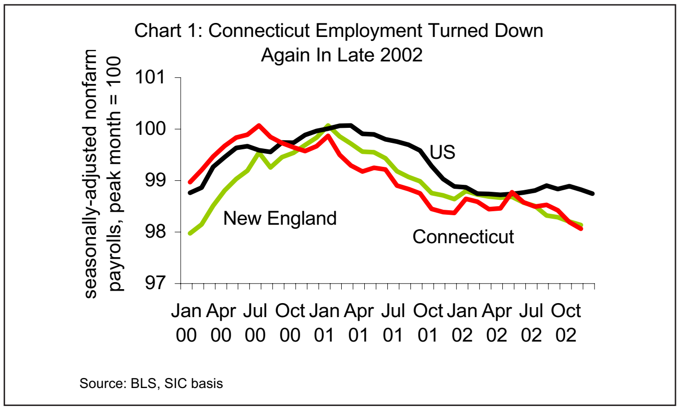
FDIC State Profile

SPRING 2003

Connecticut

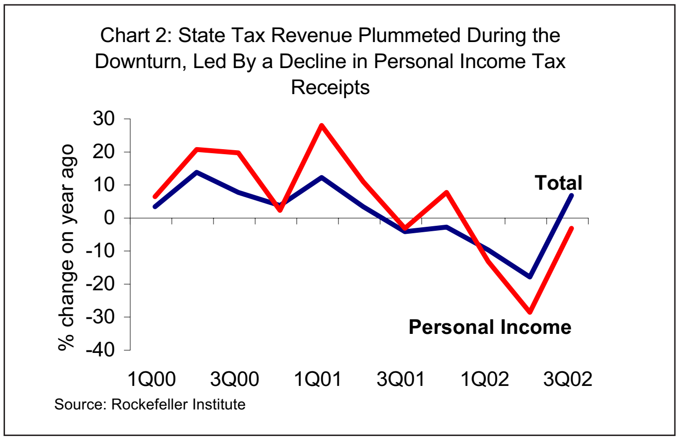
After a brief respite through the spring, Connecticut's economy has once again turned down.

- Connecticut's employment declined steadily between June and November of 2002, while the state's unemployment rate rose from 3.5%, to 4.4% by November (see **Chart 1**).
- Despite having one of the lowest unemployment rates in New England, a decline in Connecticut's labor force during 2001 may mask the full extent of the number of workers idled by the recent recession.
- The continued malaise in the IT sector will not impact the state's economic growth prospects nearly as much as in the more IT-reliant neighboring states of Massachusetts and New Hampshire.



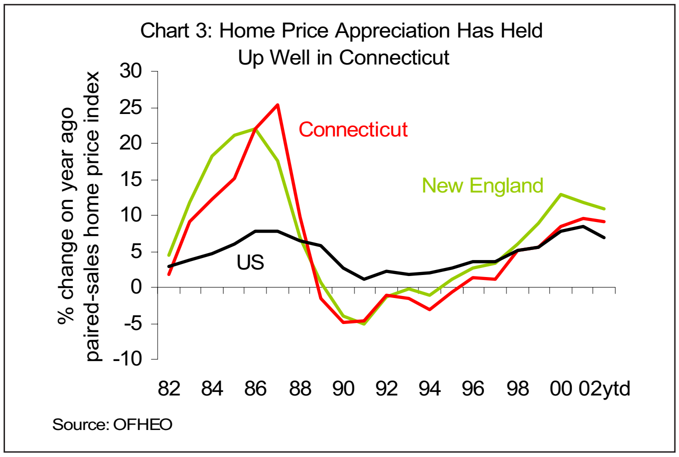
State budget gaps need to be addressed in fiscal year 2004.

- The state faces a $1.7 billion budget deficit for fiscal year 2004. State employee layoffs are expected to continue and taxes may be increased to balance the budget, further undermining the economic recovery.
- The decline in income tax revenue, including capital gains taxes, has thrown this heavily income tax revenue-dependent state into deficit (see **Chart 2**).



Home price gains may somewhat offset negative effects of lost stock market wealth on state's economy.

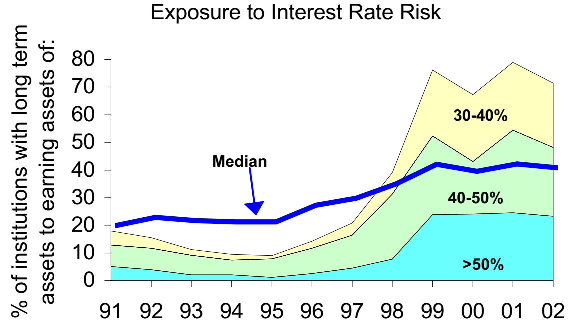
- The ongoing bear market in stocks will continue to cloud the outlook for financial services employment and related income in the state, especially in areas proximate to ***New York City***.
- Any negative stock market wealth effect on household spending has probably been partially offset by increasing home values (see **Chart 3**).



Interest Rate Risk remains a concern for Connecticut institutions that increased concentrations of fixed, long-term assets during the recent refinancing waves.

- With the conventional 30-year mortgage rate below 7.0 percent for the past 12 months, refinancing activity remains strong as borrowers continue to lock in long-term, fixed-rate loans at lower rates.
- During this time, asset maturities have lengthened at many institutions. Median long-term assets represented 39 percent of earning assets, the highest level in the last decade. More than one fifth of Connecticut's institutions have long-term asset concentrations greater than 50 percent (see **Chart 4**).
- The extension of asset maturities is pronounced in the state, as well as New England, reflecting the large percentage of thrifts and residential lenders. Savings institutions represent two-thirds of insured institutions in Connecticut, and residential real estate loans comprise 57 percent of the average loan portfolio in the state. Net interest margin compression may occur at these institutions when short-term interest rates increase as liabilities will reprice at a faster rate than assets.

Chart 4: Long Term Asset Concentrations Have Risen In Many Institutions in Connecticut, Suggesting Increased Exposure to Interest Rate Risk



Source: Bank Call Reports, Data Through 3rd Quarter

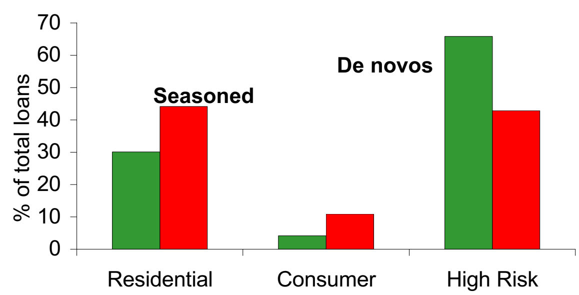
Overall credit quality weakened slightly during the third quarter; some deterioration was observed in consumer and commercial real estate credits and could become more pronounced with the sluggish economy.

- While lower than year-ago levels, the median past-due ratio increased slightly during the third quarter of 2002. The deterioration was driven by increases in consumer and commercial real estate loan delinquencies. As bankruptcies continue to rise, and credit quality generally lags economic cycles, deterioration may continue.
- One quarter of Connecticut's banks report high-risk[1] loan concentrations of at least 300 percent of capital. The ***Stamford*** MSA had the third highest median high-risk loan concentration (417 percent) of all New England MSAs as of the third quarter, and exposure levels continue to rise.
- Portfolios in the state have been shifting towards traditionally high-risk loans due to strong commercial, construction, and commercial real estate loan growth over the past few years.

De novo activity remains strong, as Connecticut has the largest share of new banks in the Region.

- As of third quarter 2002, Connecticut had eight institutions under three years old, representing 12 percent of institutions.
- Loan growth in new commercial banks has been concentrated in traditionally high-risk loan types, with 66 percent of total loans in commercial, commercial real estate, multi-family and construction loans, more than one and a half times their long-established commercial bank competitors (see **Chart 5**).

Chart 5: De Novo Banks Have Higher Concentrations Of High-Risk Loans



* High-risk is defined as Commercial, Construction, Commercial Real Estate and Multi-family Loans
Source: Commercial Bank Call Reports, Data as of 3rd Quarter 2002

[1] High risk is defined as Commercial, Construction, Commercial Real Estate and Multifamily loans.

Connecticut at a Glance

General Information	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Institutions (#)	66	68	71	73	75
Total Assets (in thousands)	53,426,650	48,996,621	48,497,625	45,363,381	45,640,367
New Institutions (# < 3 years)	8	10	9	5	2
New Institutions (# < 9 years)	15	15	12	8	9

Capital	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Tier 1 Leverage (median)	9.15	9.60	9.45	9.13	8.95

Asset Quality	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Past-Due and Nonaccrual (median %)	0.93%	1.09%	0.98%	1.32%	1.85%
Past-Due and Nonaccrual ≥ 5%	2	2	1	2	5
ALLL/Total Loans (median %)	1.15%	1.16%	1.20%	1.25%	1.35%
ALLL/Noncurrent Loans (median multiple)	2.59	2.37	2.74	1.83	1.47
Net Loan Losses/Loans (aggregate)	0.35%	0.37%	0.25%	0.28%	0.35%

Earnings	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Unprofitable Institutions (#)	8	9	7	6	2
Percent Unprofitable	12.12%	13.24%	9.86%	8.22%	2.67%
Return on Assets (median %)	0.86	0.76	0.94	0.90	0.92
25th Percentile	0.52	0.49	0.65	0.66	0.70
Net Interest Margin (median %)	3.81%	3.78%	3.93%	3.87%	3.92%
Yield on Earning Assets (median)	6.28%	7.29%	7.50%	7.23%	7.58%
Cost of Funding Earning Assets (median)	2.36%	3.55%	3.68%	3.41%	3.70%
Provisions to Avg. Assets (median)	0.08%	0.06%	0.06%	0.07%	0.08%
Noninterest Income to Avg. Assets (median)	0.55%	0.52%	0.45%	0.45%	0.44%
Overhead to Avg. Assets (median)	2.89%	2.82%	2.89%	2.84%	2.97%

Liquidity/Sensitivity	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
Loans to Deposits (median %)	73.72%	76.70%	80.18%	77.76%	78.09%
Loans to Assets (median %)	60.04%	61.03%	63.29%	62.54%	63.74%
Brokered Deposits (# of institutions)	5	4	5	5	7
Bro. Deps./Assets (median for above inst.)	0.10%	0.24%	3.33%	1.98%	1.43%
Noncore Funding to Assets (median)	15.54%	13.88%	14.36%	14.47%	11.24%
Core Funding to Assets (median)	72.41%	73.17%	73.09%	73.53%	76.47%

Bank Class	Sep-02	Sep-01	Sep-00	Sep-99	Sep-98
State Nonmember	15	14	13	16	17
National	8	8	8	7	7
State Member	2	2	2	2	2
S&L	4	6	8	8	8
Savings Bank	6	5	5	2	3
Mutually Insured	31	33	35	38	38

MSA Distribution	# of Inst.	Assets	% Inst.	% Assets
Hartford CT	19	10,257,859	28.79%	19.20%
No MSA	13	15,072,084	19.70%	28.21%
Stamford-Norwalk CT PMSA	10	2,454,881	15.15%	4.59%
New Haven-Meriden CT PMSA	7	3,271,781	10.61%	6.12%
Danbury CT PMSA	6	3,489,101	9.09%	6.53%
Waterbury CT PMSA	5	14,509,600	7.58%	27.16%
New London-Norwich CT-RI	4	4,047,978	6.06%	7.58%
Bridgeport CT PMSA	2	323,366	3.03%	0.61%